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THE DIRECTOR OF  
CENTRAL INTELLIGENCE

National Intelligence Council

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NOTE FOR: Bill Martin  
Executive Secretary, NSC

FROM: David B. Low  
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SUBJECT: Initiatives for the NSC

In response to your request, I put together (very informally--personal views only) the following list of issues that the NSC might tackle in an NSSD format, either on its own initiative or because of events, over the next twelve months.



David B. Low

Attachment:  
List of Issues

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## Initiatives for the NSC

1. Key Debtor Countries: I sense an erosion, although not necessarily a fatal one, in the current system of ad hoc debt negotiations. For one, the current governments in Brazil and Mexico seem less in control of events than most analysts anticipated several months ago. Sarney, in particular, seems wed to a populist policy and may be vulnerable to demarches on debt moratoria if his policies fail. Also, I'm less sanguine about global growth and, hence, the environment for trade improvement in these countries. There is, at a minimum, a growing downside risk on the OECD growth front. Lastly, I'm concerned about the real currency appreciation that has taken place in these countries which has eroded the trade cushion which benefited them last year. We are, by the way, in the early stages of formulating a special estimate on this issue.

2. Mexico: The Mexican situation is particularly troublesome. The one major plus the government had going for it--the ability to rule strongly and take decisive economic and political action--seems to be eroding. This erosion coupled with the prospects for lower oil prices, devaluation of the peso, IMF confrontation, and the growing concerns of businessmen in the northern areas portends a possible substantial increase in friction with the U.S. both in economic areas and in emigration.

3. West European Energy Dependence: As you are aware, the Soviet Union is taking a more aggressive approach to pricing natural gas than they have in the past. This comes at a time when projections for future gas use in Western Europe may be near an ebb because of the national currency cost of imported oil and an extended period of sub-par economic growth. You have been as close to this issue as anyone in the government and know the problem well. Perhaps there are still untapped ways of spotlighting the problem in a more convincing way.

4. Israel and Egypt: I am also concerned that two largest aid recipients seem bent on courting economic disaster. In Israel, a lack of economic leadership could eventually drain the country of the very resource base that has been the backbone of the country's strength in the past. If oil prices fall, and Egypt suffers also, it will alter substantially two pillars of our political policy in the Middle East. I am aware that State Department has been playing an active role in trying to get Israel back on track. Perhaps NSC could also review the bidding in an analytic and policy sense, however, to develop a coordinated approach to the problem.

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5. Falling Oil Prices: I believe we are underestimating the effects falling oil prices could have on the stability of friendly oil exporters simply because it is analytically difficult to do more than extrapolate present trends in internal political strains. There is already a good deal of tension among the ruling elements in Saudi Arabia. Whether the Saudis continue to play the role of swing producer or strike out on their own, these tensions are likely to increase with results that are impossible to determine. I am concerned that taken together with the problems in Israel and Egypt, we may be on the verge of suffering a relative loss of our political leverage vis-a-vis more radical elements in the area and, by extension, the Soviet Union. We have underway an estimate on this topic.

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7. Pacific Basin: Clearly, events are moving rapidly on the Pacific rim. Japan may be on the verge of a new political system for changing Prime Ministers. Economically, the country (save for exports) is in the doldrums and in need of imaginative leadership to get the domestic economy going. China's prioritization of light industry and agriculture are obviously extremely important but, as yet, not well understood moves; and there is the sense of some movement on the Korean issue, although just what changes will result are not clear.

On the economic front, I am, as others, struck with the potential for a Pacific dialogue, but I find it as difficult as others to define this in useful terms. The complementarity and contrasts between the Asian and Latin economics are striking. In the past, bilateral forays by Asia into Latin America have foundered on the rocks of unwise heavy industrial projects that have not panned out. Perhaps there is another level to get an economic exchange going--managerial, other services, light industry or whatever--that could bring about a successful economic interchange between Asia and the Americas.

One need not elaborate on the Philippines as a political, economic and military issue.

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